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Westfair

ANNUAL REPORT '76

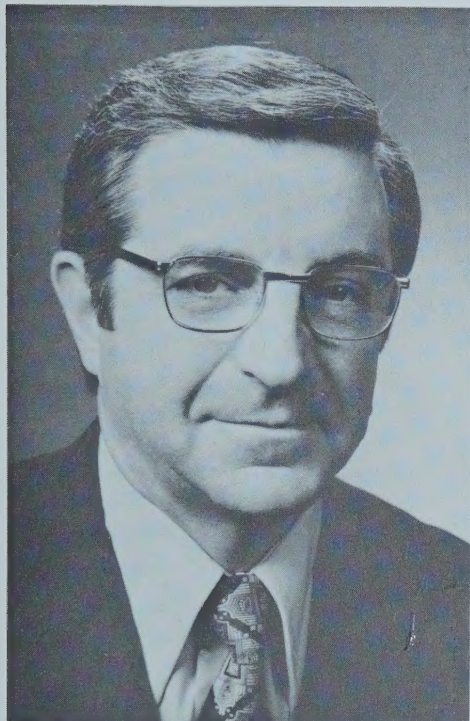


Westfair Foods Ltd.

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Report to Shareholders



This year's Annual Report reflects a further increase in the Company's growth. New highs for sales and operating profits were achieved for the 52 weeks ended January 1st, 1977.

Sales increased by 52,615,000 to a total of \$390,832,000. Although all divisions contributed towards the improvement a significant portion of the increase in sales came from our new subsidiary in Colorado, U.S.A. Net income was \$4,437,000. The decline from 1975 reflects only a reduction in the gain on sale of fixed assets. Income from operations before income tax and gain on sale of fixed assets continues to show satisfactory growth. Working capital of \$26,476,000 was less than at the end of 1975, attributable to the purchase of the wholesale and retail operations in Colorado. Despite this decline, the ratio of current assets to current liabilities is high for the industry and reflects the healthy financial condition of the company.

The Retail operations showed satisfactory growth in 1976. Super Markets under the trading name of Loblaws were opened in Edmonton and Winnipeg during the year. In Southern Alberta we converted all the Loblaw Stores into Super Valu Stores and franchised them. Retail Sales in Manitoba and Saskatchewan showed an improvement over the previous year but in Alberta, due to franchising, we showed a decrease.

Wholesale operations comprising Western Grocers, Shelly Western and Dominion Fruit registered an improvement over the previous year. We are continuing to consolidate wholesale operations where necessary, to provide improved profitability and better distribution services to our customers.

Cash and Carry facilities are continually being modernized. In 1976, an expanded Cash and Carry operation was opened in Winnipeg and major renovations were completed in Fort Frances, Ontario.

In March 1976, we acquired the warehouse assets and certain undeveloped real estate in Colorado from an affiliate — National Tea Company. We proceeded to convert the centre into a full line food wholesaling house, capable of servicing 33 National Tea stores and other retailers in the region. By October, we had concluded arrangements whereby we would supply a large chain as well as certain independent retailers as their wholesaler. In addition, we opened a large Cash and Carry warehouse in Denver. On 31st December, we purchased the Colorado National Tea stores and are currently in the process of franchising the majority of these stores. Having completed the conversion of this subsidiary from being a corporate retailer to a full line wholesaler, we can look forward to wholesale sales in the region of \$100 Million per annum, and a profitable operation.

In 1977, major changes will take place, which will have a positive impact on operations in both the short and long term. On March 28th, 1977, your company will acquire four Retail outlets in Thunder Bay, Ontario. These stores will be operated under the trading name of Loblaws. In the latter part of 1977, a new 150,000 square foot warehouse facility will be opened in Calgary, and two new Super Markets will be opened in Saskatchewan, one each in Saskatoon and Regina.

While our Corporate Retail Divisions continue to grow, the Company's predominant strength is still with the independent retailer. They have a very important role to play in the market place and it is our intention to help this segment of the market remain competitive and up-to-date in modern methods of food retailing.

Mr. E. R. O'Neill, Chief Executive Officer and President of the Company, since 1973, retired in 1976. On behalf of the Shareholders, the Board and the Staff, we wish to pay tribute to his successful leadership.

We wish to express our appreciation for the continued loyal support of our employees and our customers, without either of which success is not possible.

A handwritten signature in dark ink, reading "M. D. Booty". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

M. D. Booty
President & Chief Operating Officer
On Behalf of the Board of Directors
Winnipeg, Manitoba
February 25, 1977

Five Year Review

(in thousands of dollars)

	1976	1975	1974	1973	1972
Sales	\$390,832	\$338,217	\$306,926	\$278,810	\$257,555
Net Income	4,437	6,329	7,868*	3,911	3,402
Depreciation	1,788	2,133	1,961	1,482	1,809
Working capital	26,476	28,289	18,443	18,700	20,569
Shareholders' equity	51,357	48,335	43,421	36,968	39,472
Total Assets	\$78,065	\$68,724	\$61,072	\$59,377	\$53,945

*after extraordinary income item of \$3,750

Consolidated Statement of Income

Westfair Foods Ltd.
Fifty-Two Weeks ended January 1, 1977
and Fifty-Three Weeks ended January 3, 1976
(in thousands of dollars)

	1976	1975
Sales and other income		
Sales	\$390,832	\$338,217
Investment income (note 3)	1,371	1,010
Gain on sale of fixed assets	472	3,616
	392,675	342,843
Costs and expenses		
Cost of sales, selling and administrative expenses before the following items	382,505	330,091
Amortization of goodwill	120	120
Depreciation and amortization	1,788	2,133
Interest on long-term debt	88	110
	384,501	332,454
Income before income taxes	8,174	10,389
Income taxes	3,737	4,060
Net income	\$ 4,437	\$ 6,329
Per common share	\$ 48.67	\$ 70.51

Consolidated Balance Sheet

Westfair Foods Ltd.
(incorporated under the laws of Canada)
as at January 1, 1977 and January 3, 1976
(in thousands of dollars)

Assets	1976	1975
Current assets		
Cash and deposit receipt	\$ 8,229	\$11,079
Accounts receivable (note 2)	5,919	8,315
Inventories	31,166	24,758
Prepaid expenses	531	73
	45,845	44,225
Investments and other assets		
Secured loans and advances, not due within one year	1,538	2,397
Sundry investments, at cost (note 3)	3,897	3,946
Land held for sale at the lower of cost and net realizable value	1,785	
Deferred account recoverable	429	643
Goodwill	840	960
	8,489	7,946
Fixed assets		
Land and buildings	19,753	17,648
Equipment	19,520	13,984
	39,273	31,632
Less accumulated depreciation	15,542	15,079
	23,731	16,553
	\$78,065	\$68,724

On behalf of the board:
R. J. Addington, *Director*
M. D. Booty, *Director*

Liabilities	1976	1975
Current liabilities		
Accounts payable and accrued liabilities	\$15,308	\$13,113
Accounts payable, affiliated companies	1,358	1,384
Income and other taxes payable	1,776	655
Deferred income taxes		223
Dividends payable (note 4)	371	371
Long-term debt payable within one year (note 5)	556	190
	19,369	15,936
Long-term debt (note 5)	4,212	1,215
Deferred foreign exchange adjustment	279	
Deferred real estate income	469	621
Deferred income taxes	2,379	2,617
Shareholders' Equity		
Capital stock (note 6)		
Authorized		
175,000 Preferred shares, par value \$20 each		
150,000 Class A shares without par value		
150,000 Common shares without par value		
Issued		
59,715 Preferred shares (\$1.40 series)	1,194	1,194
67,772 Class A shares	1,023	1,023
86,658 Common shares		
Retained earnings	49,140	46,118
	51,357	48,335
	\$78,065	\$68,724

Consolidated Statement of Retained Earnings

Westfair Foods Ltd.

Fifty-Two Weeks ended January 1, 1977

and Fifty-Three Weeks ended January 3, 1976

(in thousands of dollars)

	1976	1975
Retained earnings at beginning of period	\$46,118	\$41,204
Net income	4,437	6,329
	50,555	47,533
Deduct		
Dividends declared		
Preferred shares	84	84
Class A shares	135	135
Common shares	1,196	1,196
	1,415	1,415
Retained earnings at end of period	\$49,140	\$46,118

Consolidated Statement of Changes in Financial Position

Westfair Foods Ltd.
Fifty-Two Weeks ended January 1, 1977
and Fifty-Three Weeks ended January 3, 1976
(in thousands of dollars)

	1976	1975
Working capital derived from		
Operations		
Net income	\$ 4,437	\$ 6,329
Add (deduct)		
Depreciation and amortization	1,788	2,133
Gain on sale of fixed assets	(472)	(3,616)
Deferred income taxes	(238)	161
Deferred real estate income	(152)	(42)
Goodwill amortization	120	120
Amortization of deferred account recoverable	214	214
Other	(75)	53
	5,622	5,352
Proceeds from disposal of fixed assets	1,082	9,101
Proceeds from disposal of land held for sale	383	
Proceeds from issue of long-term debt	3,594	
Decrease in secured loans and advances	859	
Deferred foreign exchange adjustment	279	
	11,819	14,453
Working capital applied to		
Reduction of long-term debt	597	220
Dividends	1,415	1,415
Purchase of fixed assets	1,928	1,820
Acquisition of Denver wholesale and retail food operations (net of working capital acquired of \$4,390,000)	9,689	
Increase in secured loans and advances		1,149
Increase in other assets	3	3
	13,632	4,607
Increase (decrease) in working capital	(1,813)	9,846
Working capital at beginning of period	28,289	18,443
Working capital at end of period	\$26,476	\$28,289

Notes to Consolidated Financial Statements

Westfair Foods Ltd.
January 1, 1977

1. Summary of Significant Accounting Policies

- (a) Basis of consolidation
- (i) The consolidated financial statements include the accounts of the company and of all subsidiaries.
 - (ii) All material inter-company transactions have been eliminated.
- (b) Inventories
- Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. All other inventories are stated at the lower of cost and net realizable value.

- (c) Goodwill
- Goodwill arises from the excess of cost of assets over fair value of net assets acquired. The company's policy is to amortize the excess of cost of assets over the fair value of net assets acquired over a period of ten years.

- (d) Fixed assets
- All fixed assets are stated at cost. Depreciation is recorded on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:
- | | |
|------------------------|--|
| Buildings | 2½% to 5% |
| Automotive equipment | 12½% to 22½% |
| Equipment and fixtures | 10% to 20% |
| Leasehold improvements | Lesser of useful life or term of lease |

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income.

- (e) Deferred real estate income
- The profits realized on the sale and lease-back of property have been deferred and are being amortized at various rates according to the remaining term of the respective leases.
- (f) Deferred foreign exchange adjustment
- All U.S. balances have been translated at approximately the current rate of exchange. The net difference on translation has been deferred until realized.

- (g) Acquisitions
- During the year the company and its subsidiaries acquired a wholesale and retail food operation in Denver, Colorado, from a United States affiliated company, National Tea Co. This transaction was accounted for as a purchase, with the operating results included in the consolidated statement of income from the effective dates of acquisition. The acquisition equation at the dates of acquisition is set out below:

	(in thousands)
Net assets acquired at fair value	
Current assets	\$ 5,983
Fixed assets	7,644
Land held for sale	2,045
	<u>15,672</u>
Current liabilities	<u>1,593</u>
	<u>\$14,079</u>
Consideration	
Cash	\$10,485
Long-term debt	3,594
	<u>\$14,079</u>

2. Accounts receivable

	1976	1975
	(in thousands)	
Trade	\$4,881	\$4,984
Affiliated companies	305	315
Loans, advances, mortgages and non-current receivables due within one year	733	3,016
	<u>\$5,919</u>	<u>\$8,315</u>

3. Sundry investments and investment income

Sundry investments include \$3,750,000 in preferred shares of an affiliated company. Investment income includes dividends and interest of \$841,940 from affiliated companies.

4. Dividends payable

Dividends payable of \$371,000 includes \$305,000 payable to affiliated companies.

5. Long-term debt

	1976	1975
	(in thousands)	
Westfair Properties Ltd.		
First Mortgage Bonds		
Series A, 5¾% Sinking fund debenture due December 15, 1986, par value of \$930,000 less bonds on hand of \$26,000	\$ 904	\$1,005
Westfair Wholesale Properties Ltd.		
9% First mortgage maturing in 1978	270	400
Western Grocers Inc.		
6½% Promissory note, affiliated company, maturing in 1987	3,594	
	<u>4,768</u>	<u>1,405</u>
Principal instalments included in current liabilities	556	190
	<u>\$4,212</u>	<u>\$1,215</u>

Principal instalments of long-term debt payable each year for the next four years are:

1977	\$556
1978	593
1979	452
1980	452

6. Capital stock

The holders of the preferred shares (\$1.40 Series) are entitled to a dividend when and as declared, of \$1.40 per share per annum on a cumulative non-participating basis. These shares are non-redeemable, but may be purchased by the company for cancellation. The holders of the Class A shares are entitled to dividends, when and as declared, of \$2.00 per share per annum on a non-cumulative, non-participating basis. No dividend shall be paid or declared for payment on common shares in any fiscal period unless and until dividends at the rate of \$2.00 per share for such year have been paid or declared on the Class A shares.

7. Commitments and contingent liabilities

(a) The company and its subsidiaries have obligations under long-term leases for retail outlets, warehousing facilities, equipment and store fixtures. The aggregate minimum rentals (exclusive of additional rents based on sales or realty taxes and other charges) under long-term leases with an initial term greater than five years are as follows for each of the periods shown.

		(in thousands)
For the years	1977	\$ 5,254
	1978	5,024
	1979	4,713
	1980	4,514
	1981	4,313
For the five years ending	1986	14,453
	1991	9,565
	1996	6,903
	after 1996	3,705
		<u>\$58,444</u>

(b) The present value of the unfunded liability for past service under the company's pension plans amount to \$459,000. The liability is being funded over various periods from one to seven years.

(c) One of the subsidiaries has entered into an agreement to have a warehouse constructed in Calgary, Alberta for approximately \$2,500,000.

8. Directors' and Officers' remuneration

Remuneration of directors, as directors	\$ Nil
Remuneration of officers, as officers	\$190,000
Number of directors	4
Number of officers	5
Number of officers who are directors	3

9. Anti-Inflation Act

The company and its subsidiaries are subject to the requirements of the Anti-Inflation Act which provides for the restraint of profit margins, prices, dividends and compensation. In the opinion of management, the company has complied with the regulations of the Act.

To the Shareholders of
Westfair Foods Ltd.

We have examined the consolidated balance sheet of Westfair Foods Ltd. as at January 1, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at January 1, 1977 and the results of its operations and the changes in its financial position for the fifty-two weeks then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Thorne Riddell & Co.

Chartered Accountants
Winnipeg, Canada
January 25, 1977

Directors

Officers

Raymond J. Addington
Mervyn D. Booty
Keith W. Campbell
Charles M. Humphrys

Raymond J. Addington
Chairman & Chief Executive Officer
Mervyn D. Booty
President & Chief Operating Officer
Keith W. Campbell, C.A.
Vice-President, Finance & Secretary
David G. King, C.A.
Controller
Thomas E. Anderson
Assistant Secretary

Transfer Agent
The Royal Trust Company

Auditors
Thorne Riddell & Co.

Solicitors
Pitblado & Hoskin

Stock Listings
Toronto, Montreal and Winnipeg
Stock Exchanges

